

FDIC State Profile

Spring 2005

Rhode Island

Revised payroll data indicate the economy performed slightly better in Rhode Island than originally reported.

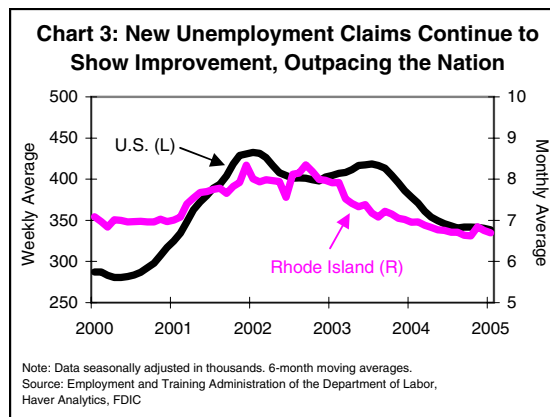
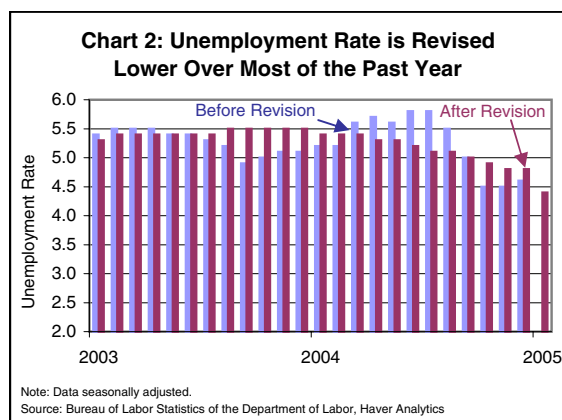
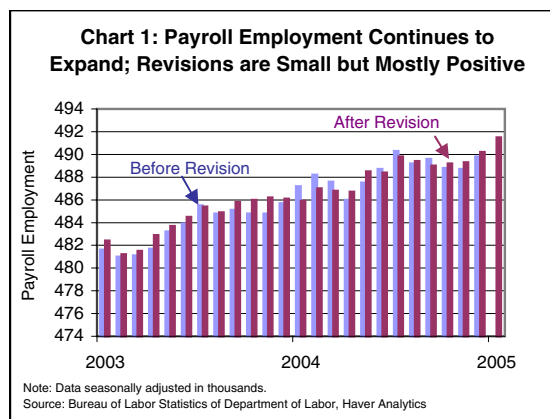
- The new seasonally adjusted payroll employment data show that the expansion from the end of the very shallow recession in November 2001 through year end 2004 was slightly stronger than originally reported (See Chart 1).¹
- Other new estimates covering 2004 show that the unemployment rate in Rhode Island was raised from an average of 5.3 percent for the year to 5.5 percent. The pattern of decline during the course of the year, however, was unaffected by the revisions (See Chart 2).

The new payroll data confirm that Rhode Island has performed exceedingly well.

- Rhode Island suffered the second lowest percentage job losses of all the New England states, trailing only Maine. From the peak in February 2001 through the trough in November of that same year, job losses in Rhode Island totaled 6,700 after seasonal adjustment, or 1.4 percent, which is better than the national loss of 2.0 percent. Subsequent growth in jobs also has been stronger than the nation.
- The revised data confirm that Rhode Island has experienced a major expansion in jobs. As has been the case nationally, the service sector has provided much of the lift. The initial data showed professional and business services exhibiting particular strength and were revised still higher.
- Manufacturing in Rhode Island continues to suffer despite improvements in most other sectors. While the rate of attrition slowed during the course of 2004, the yearly average of manufacturing employment compared with that in 2000 shows a loss of one in five jobs.

Unemployment insurance claims show improvement on a gradual, but sustained, basis.

- Initial unemployment insurance claims in Rhode Island continued to decline until just before year-end 2004 (See Chart 3).



¹Restated payroll employment data cover the period July 2003 through year-end 2004.

State Profile

- The level of new claims was much less affected by the recession than in much of the country, rising by about one-fifth as compared with one-half nationally. By year-end 2004, all of the increase in new claims had been reversed, while nationally conditions had not returned to pre-recession levels.
- The low level of new unemployment insurance claims in Rhode Island is a positive sign that job growth likely will continue during the course of this year.

Declining noninterest income is hampering profitability.

- The median ratio of noninterest income to average assets for all insured institutions in the state declined in the past two years (See Chart 4). Service charges on deposit accounts are the major source of noninterest income and declined slightly during the year, perhaps in response to competitive pressures to maintain deposit share. Gains on loan sales also declined in 2004.
- The decline in noninterest income directly affected earnings in the state's insured institutions. Noninterest income has become more important for insured institutions to offset a declining net interest margin. Larger institutions, in particular, obtain a greater share of revenue from noninterest sources.

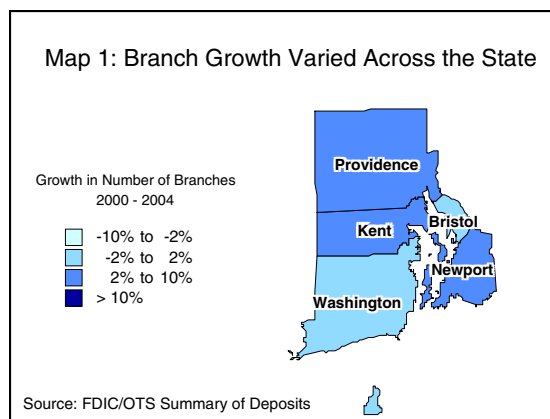
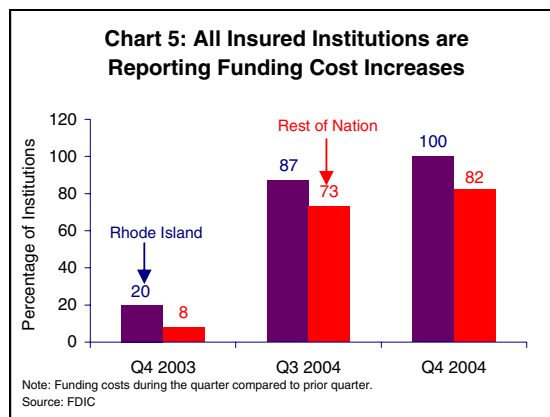
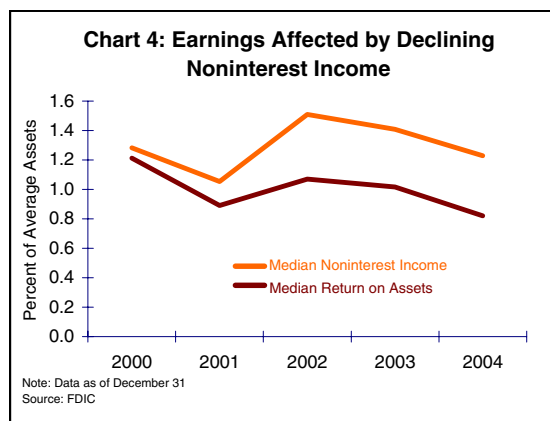
Banks are facing increased funding costs.

- All of the banks in Rhode Island have experienced increases in overall interest expense during fourth quarter 2004 (See Chart 5). The increase in the federal funds rate since June 2004 contributed to higher funding costs.
- Competition for lower-cost, nonmaturity (demand, savings, and money market deposit accounts) deposits is increasing in the market place as banks position their balance sheets to mitigate the effect of rising interest rates on net interest margins.

Rhode Island enjoyed healthy branch expansion and deposit growth.

- Branch growth in Rhode Island was 5.9 percent from 2000 to 2004, above the national average of 3.9 percent. The number of branches in both **Washington** and **Bristol** counties remained the same over the last four years (See Map 1). However, branches increased in **Kent**, **Newport**, and **Providence** counties by 9 percent, 5 percent, and 7 percent, respectively.
- Rhode Island has less branch density, measured by households per branch, than the 1,218 national average. Using demographic data from Claritas, households per branch ranged from 1,395 in Bristol County to 1,947 in Kent.

- Institutions in Kent County enjoyed the strongest growth in real deposits, which are adjusted for inflation, of any New England county—68 percent over the four year timeframe—and well above the 25 percent national average. Overall, the state's real deposit growth rate matched the U.S. average.



Rhode Island at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

| Employment Growth Rates | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--|--------------|--------------|--------------|--------------|--------------|
| Total Nonfarm (share of trailing four quarter employment in parentheses) | 0.7% | 1.2% | 0.9% | -0.8% | 1.8% |
| Manufacturing (12%) | -2.1% | -5.4% | -6.1% | -8.8% | -0.2% |
| Other (non-manufacturing) Goods-Producing (4%) | -3.1% | 12.0% | 0.0% | 5.1% | -0.9% |
| Private Service-Producing (71%) | 1.5% | 2.1% | 2.3% | 0.1% | 2.5% |
| Government (13%) | 0.4% | -0.7% | 0.7% | 1.8% | 1.2% |
| Unemployment Rate (% of labor force) | 4.8 | 5.5 | 5.3 | 4.8 | 4.2 |

| Other Indicators | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--|--------------|--------------|--------------|--------------|--------------|
| Personal Income | N/A | 5.0% | 2.9% | 3.8% | 6.8% |
| Single-Family Home Permits | -26.0% | 12.0% | -7.6% | 4.2% | -18.4% |
| Multifamily Building Permits | -51.4% | 24.0% | 168.5% | -15.1% | -75.8% |
| Existing Home Sales | 7.7% | 4.5% | -4.8% | 5.0% | 0.0% |
| Home Price Index | 16.8% | 16.9% | 16.7% | 12.0% | 11.8% |
| Bankruptcy Filings per 1000 people (quarterly level) | 0.86 | 0.94 | 1.10 | 1.03 | 0.95 |

BANKING TRENDS

| General Information | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Institutions (#) | 15 | 15 | 14 | 15 | 13 |
| Total Assets (in millions) | 246,069 | 216,482 | 200,776 | 207,627 | 184,034 |
| New Institutions (# < 3 years) | 1 | 3 | 3 | 3 | 1 |
| Subchapter S Institutions | 2 | 2 | 2 | 1 | 1 |

| Asset Quality | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--|--------------|--------------|--------------|--------------|--------------|
| Past-Due and Nonaccrual Loans / Total Loans (median %) | 0.57 | 0.62 | 0.97 | 1.00 | 1.41 |
| ALLL/Total Loans (median %) | 1.18 | 1.25 | 1.09 | 1.21 | 1.54 |
| ALLL/Noncurrent Loans (median multiple) | 3.54 | 2.56 | 3.10 | 3.57 | 2.06 |
| Net Loan Losses / Total Loans (median %) | 0.01 | 0.03 | 0.05 | 0.03 | 0.05 |

| Capital / Earnings | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--|--------------|--------------|--------------|--------------|--------------|
| Tier 1 Leverage (median %) | 10.63 | 12.35 | 9.68 | 8.62 | 7.98 |
| Return on Assets (median %) | 0.82 | 1.02 | 1.07 | 0.89 | 1.21 |
| Pretax Return on Assets (median %) | 1.23 | 1.47 | 1.55 | 1.39 | 1.80 |
| Net Interest Margin (median %) | 3.60 | 3.41 | 3.65 | 3.73 | 4.15 |
| Yield on Earning Assets (median %) | 5.31 | 5.48 | 6.27 | 7.39 | 7.89 |
| Cost of Funding Earning Assets (median %) | 1.90 | 1.85 | 2.50 | 3.68 | 4.27 |
| Provisions to Avg. Assets (median %) | 0.07 | 0.11 | 0.13 | 0.04 | 0.11 |
| Noninterest Income to Avg. Assets (median %) | 1.23 | 1.41 | 1.51 | 1.05 | 1.28 |
| Overhead to Avg. Assets (median %) | 3.50 | 3.43 | 3.38 | 3.59 | 3.21 |

| Liquidity / Sensitivity | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|--|--------------|--------------|--------------|--------------|--------------|
| Loans to Assets (median %) | 60.9 | 65.6 | 58.6 | 61.5 | 64.7 |
| Noncore Funding to Assets (median %) | 22.8 | 22.5 | 21.1 | 23.1 | 27.3 |
| Long-term Assets to Assets (median %, call filers) | 28.1 | 28.5 | 19.5 | 16.1 | 18.2 |
| Brokered Deposits (number of institutions) | 3 | 3 | 2 | 3 | 3 |
| Brokered Deposits to Assets (median % for those above) | 6.5 | 0.4 | 1.7 | 0.2 | 0.8 |

| Loan Concentrations (median % of Tier 1 Capital) | Q4-04 | Q4-03 | Q4-02 | Q4-01 | Q4-00 |
|---|--------------|--------------|--------------|--------------|--------------|
| Commercial and Industrial | 27.9 | 30.4 | 21.2 | 19.0 | 46.9 |
| Commercial Real Estate | 88.1 | 83.7 | 85.9 | 99.6 | 115.2 |
| <i>Construction & Development</i> | 7.4 | 7.2 | 9.9 | 11.6 | 17.2 |
| <i>Multifamily Residential Real Estate</i> | 0.3 | 0.2 | 0.0 | 0.1 | 0.8 |
| <i>Nonresidential Real Estate</i> | 38.0 | 53.0 | 60.2 | 65.5 | 77.6 |
| Residential Real Estate | 360.6 | 309.2 | 275.2 | 160.5 | 222.8 |
| Consumer | 4.2 | 4.5 | 8.2 | 18.3 | 19.2 |
| Agriculture | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

BANKING PROFILE

| Largest Deposit Markets | Institutions in Market | Deposits (\$ millions) | Asset Distribution | Institutions |
|--|-------------------------------|-------------------------------|---------------------------|---------------------|
| Providence-New Bedford-Fall River, RI-MA | 41 | 27,572 | < \$250 mil. | 7 (46.7%) |
| | | | \$250 mil. to \$1 bil. | 3 (20%) |
| | | | \$1 bil. to \$10 bil. | 3 (20%) |
| | | | > \$10 bil. | 2 (13.3%) |